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WTO Panel Affirms Canada Continuing Illegal Dairy Subsidies
Cost to U.S. Farmers Estimated at \$35 Million

WASHINGTON - The Office of the U.S. Trade Representative, responding to press reports, has confirmed today that a second World Trade Organization (WTO) dispute settlement panel found that Canada is still illegally subsidizing its dairy industry even after restructuring its dairy export practices. Canadian dairy export subsidies cost American farmers and dairy processors up to \$35 million a year in lost sales.

“This is an important win for American dairy farmers and processors,” said U.S. Trade Representative Robert B. Zoellick. “The WTO panel has confirmed what the United States has been saying all along - that Canada is continuing to illegally subsidize its dairy exports. These unfair practices penalize our farmers trying to compete with the Canadians in world markets.”

The dispute settlement panel concluded that Canada had not properly implemented the findings of an earlier WTO panel. The WTO findings set an important precedent that will help prevent other countries from adopting similar export subsidy programs harmful to America’s dairy industry.

“We applaud the decision of the WTO regarding Canadian dairy subsidies that have hurt U.S. dairy producers,” said Secretary of Agriculture Ann M. Veneman. “This decision demonstrates how the dispute resolution system works. Export subsidies are the most trade-distorting form of support and we call on Canada to immediately comply with the WTO ruling and eliminate its illegal dairy export subsidies. We also call on all WTO members to commit to the elimination of export subsidies in the current round of WTO negotiations.”

Background

As part of its Uruguay Round WTO obligations, Canada agreed to specific export subsidy limits on dairy products. However, on Aug. 1, 1995, Canada replaced its subsidy payments on dairy product exports, which were financed by a levy on producers, with a new permit system which allowed Canadian processors to purchase lower-priced milk for sales to export destinations. Canada claimed the new system was no longer an export subsidy.

In 1997, the National Milk Producers Federation, the U.S. Dairy Export Council and the International Dairy Foods Association petitioned the Office of the U.S. Trade Representative to challenge Canada's dairy trade practices as inconsistent with its WTO obligations on export subsidies. After bilateral consultations, the U.S. referred its complaint to a WTO dispute settlement panel in February 1998. New Zealand joined the WTO challenge to Canada's export subsidies.

In 1999, a WTO panel and the Appellate Body found that Canada's special milk class system, which provides reduced-priced milk for export, provides an export subsidy. The WTO Appellate Body also found that Canada was shipping subsidized dairy exports in greater quantities than is permitted under its export subsidy commitment levels, violating Canada's obligations under the WTO Agreement on Agriculture.

In response to the dispute settlement reports, Canada eliminated one of the export subsidies that was found to be inconsistent with Canada's WTO obligations. However, Canada introduced other programs to replace the challenged export subsidy. Both the United States and New Zealand alleged that Canada's changes failed to bring Canada's export subsidy system into conformity with its WTO obligations. In January 2001, the United States and New Zealand requested that a new WTO dispute settlement panel review Canada's new programs.

The two countries argued, and the WTO dispute settlement panel agreed, that the continued involvement of Canadian federal and provincial governments in the provision of low-cost milk to processors for export constituted an export subsidy. Canada appealed the panel findings, but the WTO Appellate Body announced in December 2001 that it could not reach a decision because the factual record was incomplete. The United States and New Zealand then requested another WTO dispute settlement panel to review the additional factual information deemed necessary by the Appellate Body. That panel found yesterday that Canada is still in violation of its WTO commitments.

Canada has 60 days to appeal the latest panel report to the WTO Appellate Body.

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